INTEREST DURING CONSTRUCTION

An essential preliminary step in the discussion of any matter of accounting theory is the statement of viewpoint, especially since there seems to be some tendency among accountants to apply certain concepts of economics, without qualification, to accounting.[1] The accountant, although he may well note with satisfaction that his field is coming to be rated as a branch of economic analysis, must recognize that accounting concepts and principles are measurably distinct from those of economic theory, and that, while a thorough grounding in the fundamentals of economics should be of genuine advantage to him, a smattering of economics—a mere superficial familiarity with certain stock phrases and definitions of the economist—may serve to confuse rather than assist him in his attempt to place accounting procedures upon a rational footing.

The viewpoints of the economist and accountant must be, of necessity, very different. The economist is concerned with economic phenomena from the standpoint of an industrial community, of an entire market situation. He seeks to discover, for example, the laws which govern the determination of market prices, prices which are compounded of a complex of circumstances and conditions as reflected in the attitudes of a myriad of buyers and sellers. He endeavors to resolve the economic personnel of the community into its primary functional elements—laborer, manager, capitalist, landlord, etc., disregarding, in large measure, the specific personalities of the business world. The economist, in short, attempts to analyze the fundamental processes of the *entire* economic structure.

The accountant, on the other hand, deals with the business situation on an entirely different level. The unit of organization

[1] Similarly certain economists have attempted to make unwarranted application of the viewpoint of the business enterprise, of the doctrines of accounting, to economic theory.

in accounting—as far as the field of competitive industry is concerned, at any rate—is the *private business enterprise*. No accounting procedure has meaning except as a particular business entity is assumed; every transaction, to have significance for the accountant, must be related to the specific enterprise. From the standpoint of the balance sheet it is the function of accounting to register the investment of an owner or group of owners in a specific business situation, and to follow this investment as it takes shape in manifold commodities, services, rights, and conditions. Or, from the point of view of the income sheet, it is the task of the accountant to set up periodic statements of the gross value of the product of a specific business and to allocate thereto the cost of producing each particular quantum of revenue, so that the net change in the situation through a particular period may be stated.

In other words, while the economist is engaged in a disinterested study of the forces that control prices in the general market, the accountant is endeavoring to show what the particular net income of his particular enterprise is. As a result the economist considers everything as cost that makes up the necessary supply price of commodities in the long run, including the necessary rewards of all the factors of production. The accountant, on the other hand, draws a line between the factors of production furnished by the members of the concern and those furnished by outsiders. The rewards of the latter are costs of the enterprise, and the rewards of the former are the income the accountant is undertaking to report. Whether this income is greater or less than the long-run necessary supply price of the services involved it is not his task, as an accountant, to decide.

This contrast has been pointed out many times; yet it requires further emphasis. Many of the current controversies concerning accounting procedures seem to arise out of a confusion of economic and accounting concepts and viewpoints. Accountants frequently make use of statements of economic principles to justify certain accounting theories, although in many cases the economist is talking about an altogether different situation, or is, at least, considering the situation from another point of view.

The various controversies with respect to the treatment of interest in accounting illustrate this confusion. "Is interest on

investment a cost for the accountant?" is the question under this head which has been most widely discussed. For several years certain teachers and professional accountants have been vigorously advocating the affirmative of this proposition. And in their writings these individuals have freely quoted the economists to the effect that interest is a cost and have used these statements from economic theory as a mainstay of their argument that interest on the specific investment is a cost for purposes of accounting.

The proponents of this view, it may be noted, have made little headway as far as securing the adoption of their doctrine in practice is concerned. The American Institute of Accountants has never indorsed the theory; the accounting profession in general has not adopted it; and the Treasury Department, in its regulations with respect to the valuation of inventories for tax purposes, specifically excludes interest on investment as an element of cost. The practical difficulties involved (e.g., the determination of the amount of capital to be included in any case and the selection of a rate) have no doubt weighed most heavily in establishing this attitude, but the theoretic objections to the doctrine are clear-cut and convincing. These objections are based upon the contrast of viewpoints outlined above. Briefly the argument runs as follows: The economist's cost of production is not the accountant's cost. The economist is interested in cost as a price-determining factor; and in general this "cost" is numerically equivalent to the "normal price" which the consumer must, in the long run, pay: effective marginal cost and price are equal. The accountant, however, deals with cost from the standpoint of the specific enterprise; and this cost is normally less than price—selling price, less by the amount of the margin of net income realized by the concern for its own peculiar services. Interest on capital furnished by the members of the concern is here not a cost but simply one element in the net return. Accounting attempts to show this net return as a residuum, a difference between accounting cost and selling price, in which are found pure interest, profits, rents, etc., in one conglomerate figure. As well include in cost profits and other payments for the services of the proprietors as interest! Cost to the accountant includes only the *purchased* commodities and services expired, not the peculiar services and

functions undertaken by the proprietors. In other words, no services furnished by the owners should be considered as cost *to themselves*. Any accounting procedure which attempts to include in cost a price for any part or all of the services of the proprietors is unreasonable, and obscures rather than clarifies the situation from the standpoint of all who wish to read the accounts.

Now the writer wishes to apply this line of reasoning to another closely related interest problem. What is the significance to the accountant of interest during construction, i.e., interest on investment prior to the operating period? It is a familiar fact that to promote the large-scale enterprise, secure the necessary capital, build the plant, acquire raw materials, and organize personnel is an undertaking requiring considerable time—in the case of a railroad enterprise perhaps several years. What of interest on investment during this period? It has been urged by several writers that a fair return on all investment during the non-operating period should be charged to property. What position should the accountant take on this matter?

In attempting to answer this question let us consider first a simple illustration of the typical competitive enterprise. Suppose, for example, that A decides to start in business as a manufacturer. He has a captial of $50,000 which he places on deposit in a commercial account. As funds are needed for building operations, he draws upon this account. At the end of the year, it may be assumed, the plant is completed, machinery has been installed, materials are in stock, operatives have been secured, and A is ready to begin manufacturing. During the year, however, not a wheel has turned; there have been no sales; no income has been realized.[1] But, it may be

[1] The sharp distinction here assumed between the construction and operating periods does not always, perhaps not often, hold good in practice. In the building of a railway line, for example, certain units are likely to be turned over to operation before the entire property is completed. Further, some revenue may be earned by trains which are primarily engaged in construction work. Similarly construction period and operating period may overlap somewhat in the case of a manufacturing company. In the very large corporation construction is likely to be more or less steadily in progress for an indefinite period. And even in the case of a single plant there may be no hard and fast line dividing construction from operation. The householder often occupies the new dwelling before the lighting and other fixtures are all attached, the shades hung, the second coat of paint on, etc. Similarly, operations are often started in the new factory before construction is fully completed.

argued, the finished plant with all the attendant conditions is now worth more than the $50,000 invested. A has had this fund tied up in constructions for the year;[1] and if the proprietor were now to sell the completed plant he would normally expect more, and would receive more, than $50,000 therefor. He has borne the burden of management, risk, and waiting for a year, and would not now relinquish the completed property for the bare amount of his investment. In other words, an interest on the investment has accrued, and the value of the plant is enhanced by such accrual.

Admitting the truth of this statement, does it follow, however, that this accrual should now be recognized on A's books of account? Let us assume in the first instance that an affirmative answer is correct and note the effect of the entries which would be involved. The value of the completed plant, we will suppose, is now enhanced by $3,500, interest on $50,000 for one year at 7 per cent. To recognize this accrual it would be necessary to charge plant (or a special asset account such as interest during construction) with $3,500 and credit A's capital account (or a special proprietary account) with the same amount, thus:

Plant................	$3,500	
A, Capital.........		$3,500.

What is the effect of these entries upon A's balance sheet? Evidently it is the same as that resulting from profitable operation. His assets are increased by $3,500 and the amount of his ownership or equity is enhanced by the same amount. In other words, such accounting would deny that the year of construction was a lean period. A's property has increased; liabilities are unchanged thereby; income accordingly has accrued.

But let us now recall what was said at the outset with respect to the unit with which the accountant deals. We have here not the general economic situation but A's particular investment. Has there really been an increase in A's assets? If we insist that there has, are we not in danger of taking the position that each and every specific investment in the business world inevitably increases with the lapse of time? This proposition could not, of

[1] For convenience the probability that these funds, in practice, would be gradually invested is ignored in the illustration.

course, be maintained. While investments in general may so increase, there is no guaranty that any specific investment will even remain intact. If A were to continue in business year after year and be unsuccessful with respect to operation, he surely would not be justified in complacently assuming that interest was steadily accruing on his investment because of the burdens of risk and waiting which he was carrying. And this is as true of the construction as of the operating period. It is sometimes said that a business cannot start operations with a deficit, in other words, that all charges prior to operation must be to asset accounts. This position is not sound. There is nothing about the construction period which renders a particular group of assets inviolate. Illegitimate expenditures, inefficiency or accident in construction, may cause large losses prior to operation.

But even assuming that there were no losses during construction, and that successful operation were assured, should the assets be written up on account of interest prior to operation? The recognition of such an accrual would have the effect of increasing the amount of the investment and consequently of lowering the rate of return realized in the later years of successful operation. Is this reasonable from A's standpoint? Is not the construction period literally a lean period, for which the proprietor expects (and *may* receive) compensation in the form of a relatively high rate of return in later periods? A genuine economic cost from the standpoint of the community may, of course, be involved; but this fact alone would not justify the accountant in capitalizing the preliminary services of the proprietor on the proprietor's own books. A does not furnish these services to himself. Rather he invests a certain sum in purchased commodities and services. His service consists in doing just this and is not in itself a part of his investment. A wishes his books to register his investment as it takes shape in purchased items, not this amount plus an estimated allowance for the function he is thereby performing.

If interest during construction is to be accrued as a concrete accounting fact, what rate is to be used? A might have left his money in the savings bank drawing 3 per cent; he might have purchased securities yielding 6 per cent; or he might, perhaps,

have invested his funds in oil stocks and have realized 50 per cent. What is the effective rate involved in view of his decision to invest in a manufacturing business on his own account? Evidently the true rate is the one implicit in the market price of completed establishments of this type; and doubtless bids could be secured for the finished plant which would determine its value and hence the correct rate of enhancement. This brings us to another aspect of the question. As admitted at the outset, the completed property would normally sell for more than $50,000 to another manufacturer who wished to begin operations directly without going through the process of construction. But this selling value would probably be $60,000 or more, rather than $53,500. In other words, the selling value—if this were a price-determining case—would tend to exceed cost by the market value of *all* the services, functions, and burdens furnished and assumed by the original builder, A. Pure interest, profits, wages, and other elements would be involved. If this were not a case in which the price-making forces came to a focus but were a supramarginal instance, the selling price would cover a rate of enhancement on investment correspondingly higher than the genuine significances of the proprietary services performed. The rate of profit realized by a submarginal builder similarly would probably be less than the normal rate of return. In any case any effective value accrual is a matter of possible selling price; and, as has just been shown, the difference between actual investment and selling price is not a mere matter of a normal interest rate.

If, then, any charge should be made to property on account of the services furnished by the proprietor during the construction period, this charge should be based upon probable selling value. But this would be contrary to the whole scheme of modern accounting. The accounting structure is based upon the idea of showing returns to the proprietor as a residuum, a difference between cost and selling price. This means that the buying market and not the selling market is the effective basis for accounting charges. As between enterprises, accordingly, the very same article, physically, will appear in the accounts at different values, an apparent violation of the law of single price perhaps, but nevertheless an entirely

rational situation from the accounting standpoint. B, for example, buys materials, labor services, etc., and manufactures a linotype machine. Value on *his* books is not the selling price but his cost. But C, a publisher, who buys the machine from B, values it initially at what is selling price to B, but what is, nevertheless, cost to C. In other words, finished goods in the balance sheet of the manufacturer are valued at his cost (in certain instances it may, of course, be desirable to adjust original cost figures to cost of replacement in order to get an effective cost), and on the books of the buyer are charged to the appropriate accounts at this cost plus profit to the seller (which includes interest and all the other elements of net revenue), if there is such a profit, plus transportation, handling, and installation charges; although the physical character of the article may be in nowise altered because of this change of ownership. And thus we have the accountant's general rule that materials, work in progress, and finished stock should be valued on the basis of cost, not selling prices.

Now is not the question of interest during construction to be settled according to this same point of view? The difference between the manufacture of a linotype machine on the one hand and the organization of a business and construction of the plant on the other is only one of degree in complexity and scale. If charges should not be based upon selling prices in one case, is it not reasonable to hold that the same principle applies to the other? This will, of course, give rise to discrepancies in capital values between enterprises in like physical circumstances but entirely rational discrepancies, as has been indicated above. A builds and equips his own factory at a cost of $50,000; then this amount is the correct property charge. B buys a duplicate plant from a construction company for $62,500; actual cost to the proprietor is again the proper basis for the entries. From the standpoint of the general market situation both establishments doubtless have the same economic significance, but from the accounting standpoint A has assets of $50,000, B, of $62,500. A has invested in raw materials, labor, etc. B has purchased these same elements, indirectly, and the services of the construction company as well. If operation is equally successful in both cases,

the rate of return subsequently realized by A will, of course, be somewhat higher than the rate realized by B. *And this is just what the accounts should show.* The true situation would be obscured rather than illuminated if a sufficient amount were added to capital in the case of A to equalize the rate of return for both enterprises.

It cannot be stated too emphatically that any accounting policy which tends to iron out differences in rates of net income between years for the same enterprise by juggling depreciation charges or other practices,[1] or differences in rates between enterprises for the same year, should be condemned. The accounts should show the peculiar situation of each enterprise. If A earns 12½ per cent on his investment while B realizes but 10 per cent, this condition should be revealed by the accounts. The capitalization process, while it may be entirely reasonable from the standpoint of an investor buying a security, in general should not be applied in getting at asset values for balance-sheet purposes.[2] Thus we have the accounting rule that good-will—the capitalized value of differential earning power—should never be recognized as an accounting fact unless purchased.

The view that interest during construction is not an accounting fact could be applied, of course, to the case of an operating company which builds certain equipment for its own use. What is the correct addition to capital, actual cost to the company, or the amount required to buy the equipment elsewhere? According to the above argument actual cost is the proper charge. In practice,

[1] It is often argued, for example, that maintenance and depreciation charges should be handled as a function of gross revenue, in order that a stable net revenue figure may be shown year by year. This permits a steady dividend rate, it is urged, and is consequently a policy very much in the interest of the stockholders. Even if such treatment of depreciation were the only way by which a constant flow of dividends could be maintained, the practice would not be justified. The accountant must take the view that each fiscal period should stand on its own footing; otherwise accounting analysis loses a large part of its significance. But, as a matter of fact, the dividend policy is largely independent of the annual showing of net revenue. By using the undivided profits account as a basis for dividend declarations, dividends are often equalized between years despite the fluctuations in annual net earnings.

[2] Where an asset involves a definitely known series of incomes, as in the case of certain leaseholds, its value for purposes of purchase and also for purposes of periodic extinguishment on the books may, of course, be determined by the discounting process.

however, the mistake is often made of including in such an item only the direct costs of labor and materials. All indirect costs properly applicable to the construction work should also be added. A portion of the ordinary expenses of operating the power plant should be included, for example, if power from this plant is used in construction operations. A small element for depreciation of structures in which construction work is housed should likewise be added. In fact, any part of the ordinary expenses that is applicable to the building of the new equipment should be transferred from the expense accounts to the accounts representing the cost of the new unit. Such allocation on a rational basis is, of course, a difficult problem of cost accounting.

It should be admitted that even actual cost is only a tentative figure. Accounting deals quite largely with judgments and estimates, not with certainties. Valuations are always more or less conjectural and unstable. But a record of cost is in itself a significant statistical record; it gives a fairly reasonable starting-point, at least. There is always a possibility that a large part of the asset values will soon disappear, but this would not justify the recognition of possible bankruptcy in the current balance sheet. The accountant could make little headway without the fundamental assumption that costs give values as a matter of preliminary record. The accountant assumes that the values of labor and materials expended for a certain purpose pass into the resulting commodity,[1] structure, or situation, not as a final conclusion but for purposes of initial statement and until evidence to the contrary is produced. It would doubtless be impossible to demonstrate the absolute truth of this assumption; indeed we know that as a matter of price determination it is not strictly true; nevertheless most would agree that it is a reasonable basis for accounting procedure.

To capitalize the services of the owners themselves would be to introduce, perhaps, a still more tentative and provisional fact than other costs, but this alone would not be sufficient ground for their exclusion. It must be admitted that in a sense these services

[1] It is interesting to note that this accounting assumption agrees with the thesis of Marx and some other economists.

do accrue, at least during the operating period, just as surely as purchased items. The economic history of a business enterprise is a more or less continuous stream, and when the accountant attempts to break up this stream into years, half-years, quarters, months, or other periods, and—putting a balance-sheet stone wall at each end—allocate to each particular period the facts appertaining thereto, he must, of course, sever many real connections and proceed in a more or less arbitrary fashion. Thus if a unit of raw material as it makes its way from the storeroom through the various stages of manufacture and finally to the warehouse as a finished article ready for shipment draws unto itself the values of all services and commodities expended as necessary incidents of its changing condition, then the economic significance of the various services furnished by the owners themselves also so attach to the finished article. Or, in other words, the value of the finished goods ready to ship is virtually selling price.[1] All this can be admitted, however, and we can still return to the objection that the viewpoint of the accountant must be essentially that of the owners and not that of the entire market situation, and from this standpoint the value of the owners' functions does not inhere in the completed article for purposes of book entries.

In the foregoing illustration it was assumed that no withdrawals were made by A, the proprietor, during the construction period. Suppose that A drew $3,500 (which we may assume is a fair remuneration for his services as an owner and manager) during the year, what effect would this have upon his balance sheet? According to the view here adopted this is purely a withdrawal of capital from the standpoint of A's books and not a payment for services furnished to construction operations. The journal entries recognizing such drawings by A should be, in summary form:

A, Capital............	$3,500	
Cash.............		$3,500

[1] In cases where goods are sold on contracts, and the final price to be realized is assured, it is often admitted that it is proper for the accountant to value goods in terms of selling prices on the basis of completion percentages. And where, as in the case of shipbuilding, the process of production covers two or more fiscal periods, a similar valuation procedure has been approved by some accountants.

If, however, it be admitted that interest (and other elements of proprietary return) during construction be recognized as contributing to the value of the property, we should be obliged to conclude that reasonable drawings by the proprietors did not diminish the amount of the investment. This view would mean, in the hypothetical case in hand, that A's investment in the plant remained at $50,000 notwithstanding this withdrawal of funds; and, accordingly, when cash was drawn by A the concurrent charge would be to property account. The argument made above against the recognition of a property value of more than $50,000 in the case where no drawings from original funds were made by the proprietor during construction would hold with equal force in favor of the proposition that the return of $3,500 to A would reduce the amount of the investment to $46,500. In any case it is the net investment which should be shown on the books.

The argument is somewhat more difficult to establish in the case of the corporation. Here we find the legal business entity, and instead of "drawings" by the proprietor we have "payments" by the corporation to its members. But it should be emphasized that the introduction of the corporate entity does not alter the essential nature of a transaction as far as its effect upon the balance sheet is concerned. Transactions between a corporation and its members are quite distinct from dealings between corporation and outsiders. Dividends paid by a corporation to its members are not a payment for services purchased but a distribution either of profits or capital. And any "dividends" which may be paid prior to operation are a reduction in capital, since no profits exist at that stage.

Thus far a homogeneous proprietorship has been assumed. A serious complication arises where the capital used in construction is secured from several more or less distinct sources. This is especially likely to be true in the case of the large corporation. Suppose company A, for, example, secures two millions in cash from two classes of investors, preferred and common stockholders (one million each). The preferred stock is to draw interest (or "dividends") at 7 per cent quarterly from date of issue. The funds secured are deposited to the order of the corporate treasurer

and are disbursed upon proper authorizations to promoters, investment bankers, contractors, jobbers, etc. Let us again assume, for convenience, that organization and construction cover the period of one year and that the full $2,000,000 is deposited at the beginning of the year. Then in addition to the other outlays a sum of $17,500 must be paid each quarter to the preferred stockholders, themselves proprietors and legally rating as members of the corporation. This payment must be made from the joint funds, as there are no other sources. Now what is the significance of this disbursement of $70,000 for the year? According to our view this sum is simply a *withdrawal of capital* and cannot be considered as still in the business under the head of interest during construction. If the company had secured the entire $2,000,000 in capital from a homogeneous group of common stockholders there would have been no such payment and $70,000 additional cash would have been available for investment in plant and materials. A more extensive property would have been the result. If, then, under this last assumption there could properly be no charge to property for interest on investment, the $70,000 withdrawn prior to operation under the other assumption is a disbursement of capital.

But if this is the case, the question arises, whose equity is impaired, the common or preferred stockholders'? If the preferred members have prior rights to assets, then this payment, from the viewpoint of possible dissolution, is a diminution of the common stockholders' investment. It is not, however, a loss from the standpoint of the common stockholder, as he is willing to make this concession for the sake of a possible higher rate of return later. It is difficult to come to a decision on this case. What viewpoint shall the accountant take in preparing the first balance sheet, that of the enterprise as a whole (the managerial point of view) or that of the residual equity, the common shareholders'? From the standpoint of the enterprise as an operating unit the actual investment in this case, according to the opinion the writer has been trying to establish, is $2,000,000 less $70,000, or $1,930,000; from the position of the common stockholders' interest there is some reason for saying that the investment is the full $2,000,000, as by

paying the sum of $70,000 in advance the common shareholders are obtaining a privilege which they doubtless consider worth the sum paid. It simmers down to the question, can the accountant rate the preferred stockholders as mere outsiders (despite the fact that their equity is given a prominent place in the corporate balance sheet) and take the position that the business unit with whose books he is dealing actually *buys* certain valuable services from these stockholders during the construction period, or should he hold that the cost of the property is the net amount invested by stockholders of both classes viewed as a single group?

If these dividend payments are a reduction in capital, what entries should be made to recognize them? Since it is customary not to charge the capital stock account unless actual shares are retired, it would be necessary to debit a special account. "Advances to preferred stockholders" might be used, an account which would later be closed against accumulated profits. This would give a special kind of valuation account, an account which did not represent an asset from the standpoint of the business as a whole and yet which indicated a speculative advantage residing in one class of owners.

The still more difficult case arises where part of the capital is secured through bond issues or other contractual equities and interest is disbursed or accrued on such funds prior to the operating period. Here again if the viewpoint of the enterprise as an operating unit is taken such disbursement and accruals are a reduction in capital, from the standpoint of dissolution the common stockholders' capital. This view asserts that the business does not *buy* the services of the bondholder. If both bonds and stocks are issued this simply means that funds are secured by the corporation from two classes of investors. In a sense the bondholders' equity is just as much a part of the capitalization as the stockholders' interest. If funds are disbursed to any of these investors prior to operation they must come out of capital; there is no other source. (As stated above the investors in a business enterprise can draw funds from but two sources, capital and earnings; and since there are no earnings during construction payments to any investor must be drawn from capital.) The question again is,

what viewpoint shall the accountant take? It must be admitted that legally a bondholder does not rate as an active member of the corporation proper; and if the accountant were to proceed from the standpoint of one interest only, the stockholders', and not from that of the conventional balance sheet as a whole, it would not be unreasonable for him to hold that these payments to certain classes of investors do not impair the assets.

In conclusion, the situation in railroad accounting should be noted. The classifications prescribed by the Interstate Commerce Commission include a property account entitled "interest during construction." This account is charged with all interest accruing during the construction period on bonds and other contractual securities and "this account shall also include reasonable charges for interest, during the construction period before the property becomes available for service, on the carrier's own funds expended for construction purposes."[1] In other words, not only is capital not to be considered as impaired by payments to bondholders, but property is to be charged with a fair interest allowance on the stockholders' funds.

This is at least entirely logical practice. If interest on any part of the capital invested accrues as a property charge, interest on the entire investment, regardless of its source, so accrues. Further, this practice can perhaps be justified in the case of the public-utility situation, even though it would not be proper accounting for the ordinary private business in the competitive field. The railroads have become quasi-public institutions.[2] Their operations and rates are more or less regulated by the government; and the investor in railroad stocks is quite largely restricted to a non-speculative rate of return. In equity, accordingly, the investor

[1] Account 76, p. 39, *Classification of Investment in Road and Equipment of Steam Roads*. Nothing is said in this classification as to the character of the concurrent credit in such a case. Evidently an account with the significance of surplus must be used.

[2] In the case of a completely socialized enterprise it could with some reason be held that the state actually *purchased* the services of ownership, as well as the other necessary commodities and services. In other words, to the extent that the investors are not the controlling influence in operation the accountant may reasonably shift his viewpoint with respect to certain problems of valuation.

should be allowed to earn this lower rate from the time his funds are first deposited. To the extent, then, that it is advisable to construct the accounts in the case of a railroad in such a way as to show the value upon which the investor should be allowed to earn, interest during the preliminary period of waiting should be added to property. The capitalization of early losses and inadequate returns, which in some cases has been allowed public-utility companies by courts and commissions under the caption "going value" or some similar term, is a step in the same direction.[1]

Evidently the above suggestions with respect to the accounting significance of interest during construction do not apply, at least with equal force, to the public utilities.

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[1] The "guaranteed industry" principle (which has never been completely or consistently adhered to by the courts as a practical matter but which nevertheless has very much influenced expressed opinions in rate cases) would make valuation for rate purposes purely a matter of original investment (adjusted to allow for any genuine change in the value of the money unit) and compound interest at some "reasonable" rate. There is, however, some question as to the advisability of introducing any kind of value for rate purposes into the accounts. Such values are a matter of judicial determination and might, it would seem, be safely ignored by the accountant, who could then restrict the accounting values to those ordinarily recognized in the competitive concern.